

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF DORTON SEWAGE)
SYSTEMS, FOR AN ADJUSTMENT OF ITS)
RATE PURSUANT TO THE ALTERNATIVE) CASE NO. 8925
RATE ADJUSTMENT PROCEDURE FOR SMALL)
UTILITIES)

O R D E R

On October 26, 1983, Dorton Sewage Systems ("Dorton") filed its application with this Commission to increase its rate pursuant to 807 KAR 5:076, Alternative Rate Adjustment Procedure for Small Utilities ("ARF"). The proposed rate would produce additional revenue of \$22,461, an increase of 101 percent. However, based on normalized test year revenue the actual increase requested would be \$20,699, an increase of 94 percent. Based on the determination herein Dorton has been granted an increase in revenue of \$4,145 annually, an increase of 17 percent.

On April 2, 1984, the Commission determined that Dorton had not complied with the notice provision of the ARF procedure and a letter was issued informing Dorton to give notice accordingly. As Dorton still had not complied, a second letter was issued May 11, 1984. On May 14, 1984, Dorton filed proof that it had complied with the notice provision.

Under the ARF procedure, a hearing may be conducted at the request of any party. On June 7, 1984, the Elysian Fields Home-owners filed a motion to intervene in the proceedings and requested that a hearing be scheduled. A hearing was held July 10, 1984, at the offices of the Commission. There were no other intervenors in this proceeding.

COMMENTARY

Dorton is a privately-owned sewage treatment system organized and existing under the laws of the Commonwealth of Kentucky, and serving approximately 177 customers in Jefferson County.

TEST PERIOD

The Commission has adopted the 12-month period ending December 31, 1982, as the test period for determining the reasonableness of the proposed rates. In utilizing the historical test period, the Commission has given full consideration to known and measurable changes found reasonable.

REVENUES AND EXPENSES

Dorton proposed several adjustments to revenues and expenses in its application. The Commission is of the opinion that the proposed adjustments are generally proper and acceptable for rate-making purposes with the following modifications:

Operating Revenues

The actual operating statement of Dorton for the test period reflected operating revenue of \$22,163. In response to Item No. 14 of the Commission's information request dated March 21, 1984, Dorton stated that the test-period operating revenues have been reported net of the Louisville Water Company

collection charge. Therefore, the Commission has increased Dorton's operating revenue by \$1,732 to reflect the normalized gross annual revenue based on the number of customers at test year-end.

Electric Expense

Dorton reported actual test-period electric expense of \$7,732. In order to assess the accuracy of the reported level of expense, as well as to determine the adjusted electric expense, the Commission requested and Dorton supplied a schedule of its electric usage from Louisville Gas and Electric Company ("LG&E"). The schedule supplied contained usage for cut-off dates differing from those associated with Dorton's actual test-period electric expense of \$7,487.

Dorton proposed an adjustment to increase its electric expense by \$773 based upon an estimated 10 percent increase. The Commission has a well established policy of allowing only those changes which are known and measurable in determining a utility's pro forma level of expense. Proposed adjustments thus must be accompanied by documentation sufficient in detail to show the determination of the dollar amount of the change. Examples of such documentation could be: notice of price changes received from suppliers, copies of invoices, board resolutions regarding wage increases, etc. The Commission finds that Dorton's proposed electric adjustment is neither known nor measurable and has disallowed it herein.

The Commission has, however, adjusted test-year electric expense to reflect the rates in effect from LG&E as of March 1,

1983. In determining the pro forma electric expense the Commission has applied LG&E's rates to the actual KWH used by Dorton during the test year. This results in adjusted electric expense of \$8,049.

Repairs, Supplies and Water Expense

Dorton proposed pro forma adjustments to its repairs, supplies and water expense accounts. In each instance the adjustment was based upon Dorton's estimate of the future expense to be incurred in each account.

The Commission in attempting to evaluate the proposed level of expense requested various items of documentation of actual test year costs in these accounts including copies of invoices, schedules of usage, copies of bills, etc. Due to a dispute between Mr. Gene Dorton, president of Dorton, and Andriot-Davidson Service Company, Inc., ("Andriot-Davidson") the firm engaged to maintain the books and records for the test period, Dorton was unable to supply any of the requested information.

Since no documentation of actual test year costs was provided by Dorton, the Commission finds that the adjusted level of expense is purely an estimate which is speculative in nature and does not reasonably project the level of expense that may be incurred in the future. The Commission finds that the proposed adjustments are not sufficiently known and measurable and has disallowed them in accordance with its previous policy.

Agency Collection Fee

As mentioned in a previous adjustment Dorton has reported its operating revenues net of the Louisville Water Company

collection charge. Therefore, in order to properly report Dorton's revenues and expenses the revenues of Dorton should be reported gross, prior to any deductions, and the agency collection fee should be reported as an operating expense in Account 903-A. The Commission has computed Dorton's pro forma collection expense based upon the rate allowed herein as a percentage of the total sewer and water bill multiplied by the collection charge per bill. This results in adjusted collection expense of \$1,125.

Management Fee

Dorton has proposed an adjustment to increase its management fee by \$3,068 to \$8,400 annually. The proposed adjustment is due to a new management contract Dorton has entered into. Under the terms of the contract Mr. Dorton will provide all routine maintenance as well as management services for a monthly fee of \$700. During the test year, Dorton paid an average of \$444 per month to Andriot-Davidson for management services and light maintenance.

The Commission finds that as Mr. Dorton will provide both management and routine maintenance services for the purpose of determining a reasonable fee to be allowed for the performance of these services the management and routine maintenance functions should be considered separately. In determining the fee to be allowed for management services the Commission has reviewed the duties and responsibilities of Mr. Dorton and has found them to be similar to the duties performed by the owner/operator of similarly sized utilities who receive fees of approximately \$150 per month

or \$1,800 annually. Therefore, the Commission will allow an expense of \$1,800 annually for management services.

The Commission has also reviewed the routine maintenance service fees paid by utilities similar in size to Dorton as well as the specific duties and responsibilities set out in the contract. In this instance the Commission finds that a monthly fee of \$350 is reasonable for the duties to be performed on a utility of this size and has therefore granted an annual fee of \$4,200 for routine maintenance. This results in a combined expense for management services and routine maintenance of \$500 monthly or \$6,000 annually.

Rate Case Expense

Dorton has proposed an adjustment to include in full the \$2,100 anticipated expense to apply for this rate increase, filed under the ARF procedure.

The ARF procedure was established as a simplified and less expensive method in which small utilities could file for rate adjustments. The Commission is of the opinion that the expenses associated with rate adjustment applications filed under this procedure should be limited to a maximum of \$1,000, to be amortized over a period of 3 years, unless justification for additional cost has been provided. The Commission has reviewed the application and record in this matter, and has concluded that the data requested in this case does not exceed that normally required in an ARF proceeding. Moreover, Mr. Dorton's testimony reflects that any additional expenses associated with the hearing were of an inconsequential amount. Therefore, an adjustment has been made to

increase test-period operating expenses in the amount of \$333 to reflect one-third of the allowable rate case expense of \$1,000.

Tax Expense

Dorton has reported a test period expense of \$1,159 for the inspection fee of the Louisville Department of Public Health. Dorton reports an expense of \$400 for 1981 while no expense is reported for 1979 and 1980.

The inspection fee of the Louisville Department of Public Health is an annual fee and has been fixed at \$400 for several years. The fact that no expense is reported for 1979 and 1980 indicates that in 1982 Dorton paid delinquent fees of prior years in addition to the inspection fee for 1982. Therefore, the Commission has removed \$759 from this account and included only the \$400 annual fee related to the inspection for the test period.

The Commission finds that Dorton's adjusted test period operations are as follows:

	<u>Actual Test Period</u>	<u>Pro Forma Adjustments</u>	<u>Adjusted Test Period</u>
Operating Revenue	\$ 22,133	\$ 1,762	\$ 23,895
Operating Expense	22,917	1,785	24,702
Operating Income	\$ <784>	\$ <23>	\$ <807>
Other Income	30	-0-	30
Net Income	<u>\$ <754></u>	<u>\$ <23></u>	<u>\$ <777></u>

REVENUE REQUIREMENTS

The rate proposed by Dorton was designed to produce an operating profit of 29 percent. Dorton stated that the requested profit was necessary in part in order to recoup losses experienced in prior years. To grant a utility a rate designed to recoup

prior losses would constitute retroactive rate-making whereby current customers would be forced to pay operating expenses of prior years that are not associated with the cost to serve them for the current period. Therefore, the Commission has disallowed Dorton's requested profit level herein.

The Commission finds that an operating ratio¹ of 88 percent will allow Dorton to pay its operating expenses and provide a reasonable return to its owners. Therefore, the Commission finds that Dorton is entitled to increase its rate to produce total annual revenue of \$28,040 which will require an increase of \$4,145 annually.

OTHER ISSUES

The Commission in processing all cases presented to it attempts to evaluate the issues of each particular case and render its decision in a timely manner. However, in this case the Commission has been prohibited from doing so by two separate deficiencies in this filing. These deficiencies include the inadequate condition of the annual reports and the lack of supporting documentation for the test period, and must be rectified by Dorton before the Commission will process any further rate requests of this utility.

The ARF procedure clearly states that the Commission will make its decision on the basis of the information contained in the annual report of the applicant for the immediate past year and the

¹ Operating Ratio = $\frac{\text{Operating Expenses}}{\text{Gross Revenue}}$

2 prior years. It also states that the ARF procedure assumes that the applicant has on file with the Commission fully completed annual reports. In this case Dorton's annual reports were deficient in that supporting schedules had been left blank, statistical information had been omitted, and revenues and expenses had not been broken down in sufficient detail. It was therefore necessary for the Commission to rectify these problems before this case could be processed. The Commission places Dorton on notice that these deficiencies must be eliminated from all annual reports filed with the Commission in the future.

The second problem faced in this case was the almost complete lack of records and documentation for the test period. As was mentioned earlier in this Order the books and records of Dorton were kept by another firm during the test period. Due to a dispute between Mr. Dorton and this firm, the company has refused to turn over to Dorton the books and records of the test period. Therefore, Dorton was forced to request extensive delays in this case while it attempted to obtain from other sources the needed data to respond to Commission information requests. This situation, completely beyond the control of this Commission, has severely delayed and hampered the processing of this case.

The Commission expects the management of Dorton in performing its duties and responsibilities to take the necessary steps to alleviate these problems in the future. As mentioned earlier the Commission will be unable to process any further rate requests filed under the ARF by Dorton unless these problems are rectified.

SUMMARY

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

1. The rate in Appendix A will produce gross annual operating revenue of \$28,040 and is the fair, just and reasonable rate to be charged in that it will allow Dorton to pay its operating expenses and provide a reasonable surplus for equity growth.

2. The rate proposed by Dorton should be denied.

IT IS THEREFORE ORDERED that the rate proposed by Dorton be and it hereby is denied.

IT IS FURTHER ORDERED that the rate in Appendix A be and it hereby is approved for service rendered by Dorton on and after the date of this Order.

IT IS FURTHER ORDERED that within 30 days of the date of this Order Dorton shall file the revised tariff sheets setting forth the rate approved herein.

Done at Frankfort, Kentucky, this 6th day of August, 1984.

PUBLIC SERVICE COMMISSION

Richard D. Hemmings
Chairman

[Signature]
Vice Chairman

[Signature]
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8925 DATED 8/6/84

The following rate is prescribed for customers receiving sewage service from Dorton Sewage Systems. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

CUSTOMER CLASS

MONTHLY RATE

Residential

\$13.21 per month